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International Multifoods

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INTERNATIONAL MULTIFOODS

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International Multifoods[2] – A

It was a beautiful summer afternoon in downtown Minneapolis, Minnesota. High above the skyline, on the 49th floor of the modern Multifoods Tower building, Devendra Mishra was being welcomed aboard as President of the Vending Services of America company (VSA). VSA was a major subsidiary of the diversified food company, International Multifoods Corporation (IMC), and Tony Luiso, CEO of IMC, was leaning over his desk with intensity as he said, "Devendra, you have the right background for this task. You will probably straighten out VSA's IT problems in six months." The former President of VSA had recently left under pressure and Devendra had been recruited to revitalize the company and restore its profitability. Afternine years of continual growth and profitability, VSA's business had seemed to hit a wall. Symptoms of serious problems were beginning to surface: costs were increasing and margins declining; there was some erosion in the small independent operator customer base, an indication of customer service problems; inventories were increasing while sales seemed to be stagnating. Within VSA and IMC, the consensus was that poor design and implementation of a new centralized management information system was the root cause of these woes.

Devendra was taking a cut in salary to come to VSA, but he saw it as an opportunity to run a $1 billion business and his chance to "make a mark" in turning around a large business. He was energetic, ambitious, and had been delighted when offered the job.

Devendra came to VSA from Technicolor, Inc., where he enjoyed an excellent reputation as an innovator and leader. There he had started three new business ventures, all of which were successful. Although his distribution experience had largely been in the entertainment industry, at Live Entertainment, Inc., he and the people at IMC felt that this experience, combined with his expertise at market and problem analyses, were just what was needed at VSA. He had been chosen after a national search involving screening of more than 1,200 candidates and careful evaluation of 15 of them. With an MBA from a leading business school, Devendra was a polished, articulate manager who made an excellent impression. He exuded intelligence and confidence. Prior to his entertainment distribution experience, Devendra had been at RCA, Inc. There he had met Bob Maddocks, who now was Senior Vice President of Human Resources at IMC. At RCA Devendra had been known as an innovative manager who was excellent at working with people and initiating successful change. Maddocks supported the selection of Devendra as President of VSA. When Luiso offered Devendra the job, he put the central challenge of fixing the stalled new management information system as follows: "Devendra, you've implemented systems before. We obviously haven't had the management expertise for a project like this."

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[2]This case was developed by Robert M. Price and Gerardine DeSanctis for instructional purposes only and is not presented as an evaluation of management practice. Revised September 6, 1999.

Before accepting the job Devendra had done his homework on the vending distribution segment of the food service distribution industry. He knew it to be a low margin business (2% to 3%) with little value-added beyond plain old good customer service. The life blood of the business was service. On the other hand, costs had to be managed very carefully. It wasn't just a business where pennies counted; it was a business where mils counted. A powerful information system that would impose discipline uniformly across the dispersed operations made good sense.

Now he was at the moment of truth. He had to understand how these basic vending distribution principles were working specifically at VSA and he had to get started getting that information system back on track.

CORPORATE AND INDUSTRY OVERVIEW

International Multifoods Corporation

IMC got its start in the late 1800's as International Milling Company, Inc., a midwest-based flour milling company, distributing flour and related baking products to bakeries, grocery stores, hotels, and restaurants. Over many years, bakery product growth and acquisition of a variety of food product, food service product, and food service distribution businesses led the company to become one of the leading food product and food service distribution firms in the United States.

By the 1980's, IMC food products businesses included grain, milling, and retail consumer food products, agricultural feeds, and related agricultural products. The company had significant operations in Canada and Venezuela as well as in the United States. IMC also owned Mister Donut, a franchised doughnut chain, and the Boston Sea Party restaurant chain. IMC food service distribution businesses consisted of VSA and Pueringer. Pueringer was a manufacturer and distributor of food products and ingredients to pizza and some other specialty restaurants.

IMC management had decided that the future of the firm should be in the manufacture and distribution of products to food service operators. The growth and success of VSA was a significant factor in reaching this strategic decision and VSA became increasingly critical to IMC's strategic thrust as the company entered the 1990s. Indeed, by the early 1990s, a corporate restructuring was underway and the company was divesting its interest in firms outside of the food service distribution business while acquiring new firms to add to its VSA food service distribution company. Still, the company retained diverse interests, and in the early 1990s, IMC was the Number 1 producer of bakery mixes in North America and Venezuela; the Number 1 producer of consumer flour and retail bakery flour in Canada; the Number 1 distributor of food products to the U.S. vending industry; and the Number 2 distributor of food products to independent pizza and Mexican restaurants in the U.S.

In its FY 1992 and FY 1993, respectively, the company earned $23 million and $41 million on sales of $2.3 billion and $2.2 billion. However, in the Fiscal Year ended February 28, 1994, shortly before Devendra arrived at VSA, IMC had incurred an annual loss of $13.4 million. Much of this loss was attributed to write down of underperforming assets and costs associated with closing and reorganization of certain U.S. and Canadian facilities, as well as the disposition of some unprofitable assets. Management hoped that these painful changes would enable a profitable future for IMC. But the company's lack of consistent performance and on-going restructuring was producing increasing pressure from stockholders and the financial community to take significant steps toward improving shareholder value. There was a growing sense that the firm did not have a sufficient strategic focus and management was pondering whether the time had come to focus the company in a specific industry, either bakery products or specialty food service distribution, the two principal businesses remaining at IMC. Food service distribution companies enjoyed higher price-earnings stock multiples than bakery products and the company's investment banking advisors were strongly recommending that it fully concentrate on this part of the business. Leadership and success of the VSA company would have to be the basic underpinning of such a strategy. So, VSA's performance was critical both operationally and strategically.

Summary organizational and financial information for IMC are given in Exhibits A and B.

VSA and the Food Service Distribution Industry

Vending Services of America was acquired by IMC in 1984. Started by two brothers, VSA was an entrepreneurial venture begun in the 1970s. The brothers grew the company both through internal growth and the quiet, steady acquisition of small vending service firms throughout the West and Midwest United States. At the time of its acquisition by IMC, VSA was a pioneering, but regional, supplier to the vending food service segment in the U.S. The brothers continued to run VSA after its acquisition by IMC, growing the firm to become a national player in its industry. In the eight-year period from 1985 to 1993 VSA grew from $200 million to $900 million in sales. By 1994, VSA operated 20 distribution centers, served 18,000 accounts, stocked 12,000 items system wide, and was among the largest buyers of Mars, Hershey, Nestle, and Nabisco products. An overview of the VSA organization when Devendra arrived in 1994 is shown in Exhibit C.

The bulk of IMC's food service products, for use in restaurants and bars (so called "finger foods"), were distributed not by IMC but by SYSCO, the largest food service distributor in the U.S. SYSCO was 10 times the size of VSA and Pueringer combined. SYSCO was a "broad-line" distribution firm, in that it delivered to all types of food services operations, including hospitals, prisons, government offices, and schools, as well as restaurants, including pizza restaurants. IMC's more narrow focus in VSA and Pueringer put it in the market segment referred to as "specialty food service distributors." The VSA vending distribution business was of no great concern to SYSCO, but the Pueringer distribution to pizza restaurants, though small, was a point of friction between SYSCO and IMC. Competition between SYSCO and IMC within this market eventually led to difficulties in achieving distribution of IMC non-vend products through SYSCO. IMC's decision to divest its food service product manufacturing business and focus entirely on food service distribution relieved this major point of tension between the two firms.

As IMC was beginning to focus on food service distribution, a controversy was brewing with regard to the future of the vending industry. In 1994 consumers spent $22B on vending products sold through 4.5 million vending machines in 1.2 million locations. The vending industry consisted of several large and thousands of small vending machine operators, which owned and maintained machines in manufacturing plants, office buildings, schools, hospitals, and military bases. Some argued that the vending industry was dying and that its long-term future was in jeopardy due to the decline in manufacturing jobs, changing consumer preferences, and possible substitution of vended food with other food distribution methods, including quick service restaurants and convenience stores. Also, warehouse clubs were increasingly serving small vending operators, in competition with distribution companies like VSA. Another major problem was the manufacturers who had direct distribution to the vend operators, precluding the need for food service distributors; these manufacturers included Frito Lay (snacks) and soft drink bottlers such as Pepsi and Coke. Further, vending was an industry with virtually no barriers to entry due to the simplistic nature of the technology and operations involved. (For information on the vending industry, see Exhibit D.)

Still, Devendra and VSA management were optimistic about the future of the vending industry and their company. Fundamental social changes in the U.S. were leaving less time available for meal preparation and greater demand for convenient access to prepared foods. The shift from a manufacturing to a service economy offered vending future growth potential in professional services settings such as educational and medical institutions. Furthermore, the quality of vended products was improving, due to advances in technology, longer shelf life of products, and reduced time-to-vend for food items. In addition, VSA could improve margins by the distribution of higher margin vended snack foods and pastries.

Despite market potential, however, it was clear that the challenge of VSA realizing significant growth was substantial.

VSA CHALLENGES

The vending service distribution business had two dominant characteristics: small margins and a heavy reliance of personalized relationships between the distributor and the vending machine owners. These characteristics had given rise to a fragmented cottage industry of 9,000 vend operators with 70% of those operators representing 10% of industry retail sales. These small operators provided personalized service, incurred almost no overhead, and had little in the way of fringe benefits for their employees who were low-paid as well. Although VSA's sales volume had been growing faster than the vending industry in total, for the fiscal year end February 28, 1994, sales had actually declined, primarily as a result of the loss of a number of small vending operator accounts. VSA competed in this market by managing in a very decentralized way with each distribution center operating on an independent basis. Its margins, however, were coming under increased pressure as its wage and benefit costs began to reflect being a large company and as the costs of the more centralized mode of operating associated with the new information systems produced more overhead expenses. The increasing trend in VSA's fixed and variable costs, as well as information regarding sales and net margins, are presented in Exhibit E. Overall, VSA had a cost disadvantage of at least 1% to 2% when compared to low overhead regional competitors, while at the same time it was not providing a significant differentiation relative to its smaller competitors. The economies of scale that should have been associated with being a national distributor were not being achieved by VSA due to inability to seriously exercise its purchasing power and the poor condition of its information systems. Fixed costs, such as warehouse equipment and maintenance, were growing, and VSA cost centers, such as customer service, information systems, finance, price management, warehousing, and transportation, were reporting consistently rising expenditures. The result was high break-even sales levels for the VSA business.

In addition to increasing costs, the VSA organization was experiencing morale problems. The company had never quite regained the enthusiasm and vigor it had when it was led by its entrepreneurial, acquisition-minded founders. Their successor had seemed intent on more central bureaucracy and control and the effect had been to create isolationism and friction between various parts of the company.

The general managers of the Distribution Centers, each of which had the title of "Division General Manager," were vital to the success of VSA. Historically, they had operated with great autonomy, which assured excellent customer service and local responsiveness. They were as available and flexible as their smaller, more local competitors. But autonomy of the Distribution Centers also made it difficult for VSA to realize economies of scale. Consequently, a superstructure to control sales, purchasing and marketing had emerged over time. The net result of the cost of this superstructure was lower margins but no major revenue enhancement. VSA did have something to offer larger national vending operators such as Aramark, Canteen, and Service America, but some two-thirds of its business was with local vending operators. Moreover, because of their market power, VSA's margin on its business with vending operators was about 60% of the margin of the so-called "independents."

The Renaissance information system aimed to fix all this. The goals were to provide VSA with the ability to realize economies of scale but still provide responsive local service. As VSA management tried to gain control of costs and concentrate on the development of Renaissance, the Division General Mangers were feeling increasingly alienated from the company. Headquarters management in Denver was becoming more top heavy and demanding. The General Managers were not involved in Renaissance design and tensions were mounting.

Renaissance

By the time Devendra arrived in his new post as CEO, IMC had invested nearly $20 million in VSA to install "the most advanced system available in the industry." The goal was to "leverage VSA's strength and consumer knowledge in assisting its customers." The new Renaissance system would support a central sales order staff with state-of-the-art order entry, inventory control and market data to better manage such key variables as product freshness, manufacturers' promotion and rebate programs, product turnover trends and customer usage history. Internally, Renaissance would transform VSA from a set of businesses with differing business practices and information system capability into an integrated company, enabling the economies of scale that had proven so elusive in the vending business thus far. Externally, it could provide information to the small independent accounts that would assist them in both placement of their machines and improving product selection. In addition, it would facilitate the integration of new acquisitions and restore growth and excitement for the business.

VSA had not historically applied or utilized information technology as a competitive weapon. Prior to Renaissance, VSA had consistently lagged behind the industry in its IT budget, spending less than .2% of revenue per year on technology, compared to the .5% to 1% spent by competing wholesale distributors. Information technology was not well understood by top managers and Information Services was viewed as an expense, not a strategic asset. IS resources focused on operations, technical support, and continuous hardware upgrades. User participation in systems-related decisions was largely absent and internal systems development projects had been limited in focus. VSA had slipped behind its competition in information technology, generating significant customer and user frustration. The mission of the Renaissance initiative, therefore, was to "re-engineer our business systems to support our near and long-term success as a competitive, profitable company."

Renaissance was an elaborate and difficult project because it would be an integral part of all of VSA's business processes. The project was orchestrated and managed with the assistance of a major consulting firm, which advised VSA management with regard to the system design and eventually oversaw its development and implementation. Renaissance included four major system modules: inventory management, sales and marketing, outbound logistics and financial management. The plan was to implement these modules with the oversight of a VSA top management steering committee, a project manager, project support staff, technical staff, and key managers and MIS representatives from each of the major functional support areas within corporate VSA.

The Renaissance system architecture was highly centralized, with order taking (telesales), warehouse "pick" schedules, billing, inventory planning, procurement, and all essential information processing functions occurring centrally in Denver. Each

Distribution Center would be connected via a 56KB data communications line to headquarters; at each Distribution Center, there would be workstations for receiving, traffic, and warehouse management. All transactions would flow into and back out of the central systems where they could be analyzed and used to more effectively and consistently manage the business. In this way, customers, suppliers, and the VSA operations "connecting" suppliers to customers would all make use of an integrated and homogeneous computer and high speed communications network. Information describing Renaissance is given in Exhibit F.

The benefits expected from this system architecture were considerable in terms of reduced operating expenses and improved customer service. For example, by centralizing the order process, VSA could support phone-based ordering with 60 to 80 people instead of the current workforce of 140 scattered across the 20 distribution centers. Workforce reductions in purchasing, operations, and administration were also anticipated. Better information was expected to result in improved pricing control, inventory control, and rebate management. In all, the net benefit of Renaissance was projected to be nearly $25 million over a five-year period (see Exhibit G).

Implementation Plan

The project life cycle for Renaissance proceeded in a top-down fashion, with two years devoted to systems design, development, and testing, followed by a planned roll-out over two six-month phases in 1994. A major information systems consulting firm served as coordinator of the project, overseeing design and implementation.

Rollout of the Renaissance system had begun in early 1994, with initial pilot tests in distribution centers located in Denver and Kansas City. The pilot studies revealed some devastating problems. There were stockouts and mis-shipments of some items. There were also problems in reconciling orders processed between first and second shifts. All this resulted in finger-pointing between Sales, the Purchasing Department, and Warehouses: they each blamed each other for the problems and they all blamed the Renaissance system. Customers were particularly unhappy. Not only was response time poor, they missed the friendly voice of an order taker at the local distribution centers—a point of contact to which they had become accustomed. Overall, there were disappointing results in manpower savings, overtime requirements, fill rates, sales revenue, and sales margin improvement . (See Exhibit H.)

IMC management was greatly concerned. VSA was a keystone to its corporate strategy. Overall, however, Renaissance was not viewed as a conceptual or strategic mistake; the problem appeared to be extraordinarily poor implementation and misjudgment as to the computer power and communications capacity required. The system implementation plan had called for completion of Renaissance rollout throughout VSA by the end of 1994, but given the problems that developed during the pilot tests, there was a question as to whether the rollout should proceed as planned. What could be done to turn this project around?

August 1994

Devendra was confident he could find a solution to the Renaissance problem and renew VSA's profitability. He was energized to take on the challenge. At the same time, he was not sure yet of the exact steps necessary to fix the problem or exactly how he would get started at that task. He did know he had to roll up his sleeves and get to work—quickly!

STUDY QUESTIONS

1. If you were Devendra, what would you do during the first two weeks of your new job as CEO of VSA?

2. What are Devendra's options with regard to the Renaissance system? What exactly is the problem and what are the solution options that he should consider? Which option would you recommend to Devendra?

3. Assuming you had a plan for dealing with the Renaissance system problem, how would you implement the plan? What would be your time frame and implementation plan? How would you assure the plan's success?

Exhibit A
IMC Organization: 1984

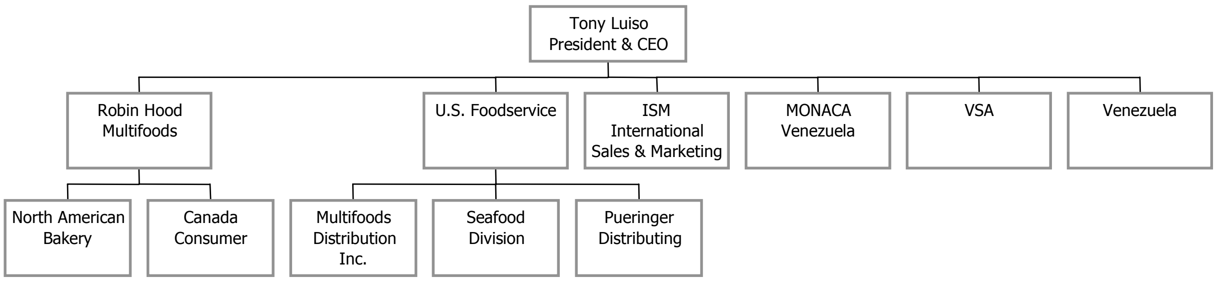
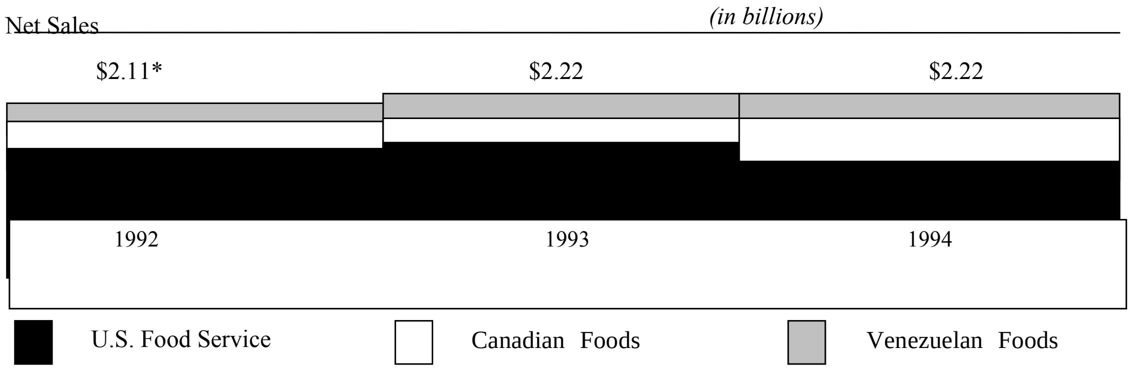
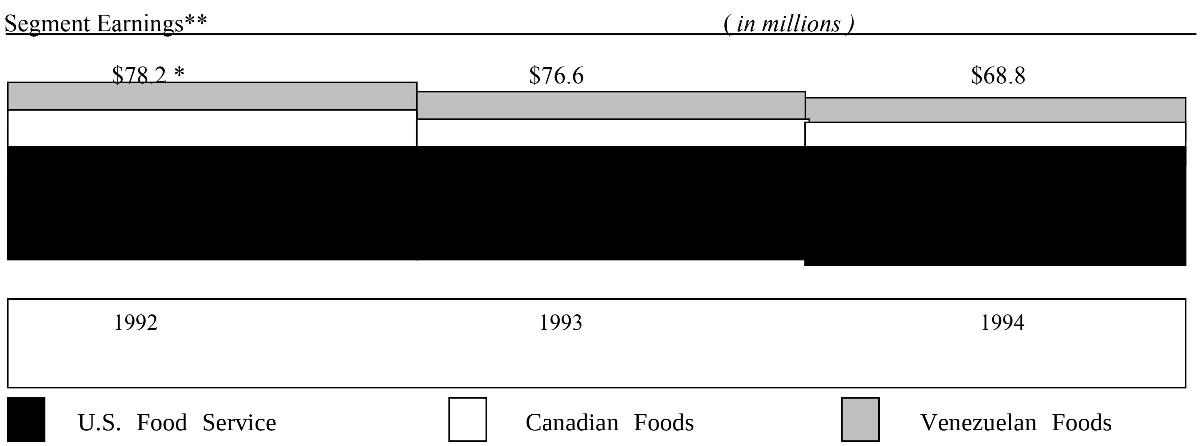


Exhibit B
IMC Selected Financial Information: 1992 to 1994





**Before unusual charges of $70 million in fiscal 1994 and $33.9 million in fiscal 1992
*Excludes North American agribusinessses divested in fiscal 1992

Exhibit C-1
Specialty Distribution – VSA, Inc.
1994

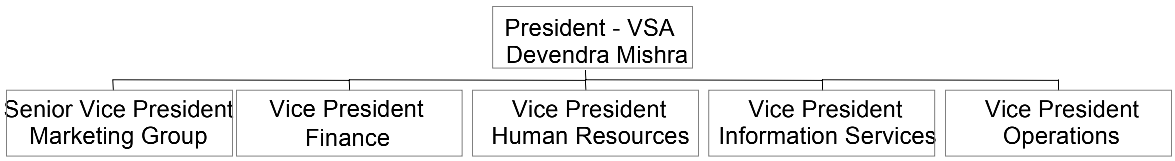


Exhibit C-2
Operations Group of VSA

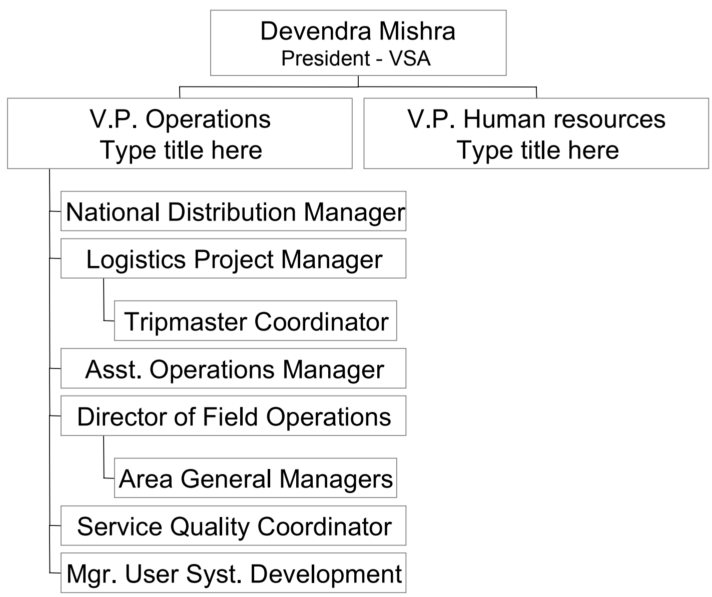


Exhibit C-3
Marketing Group of VSA

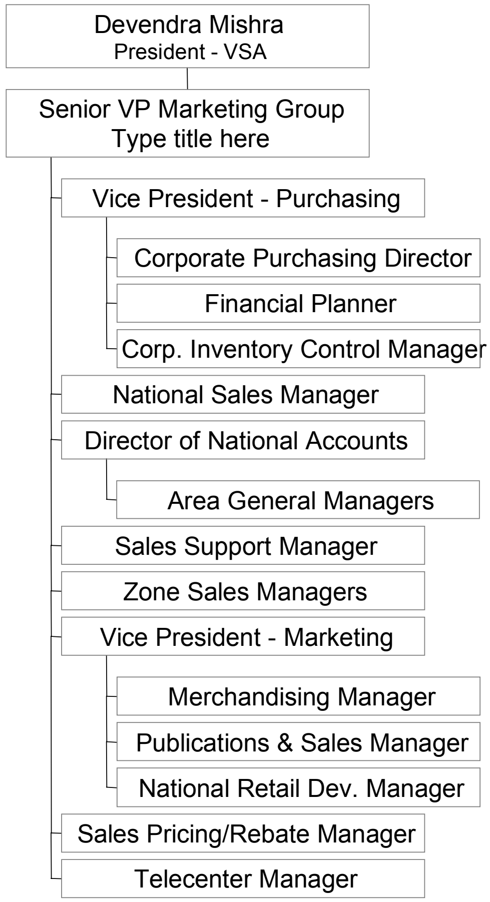
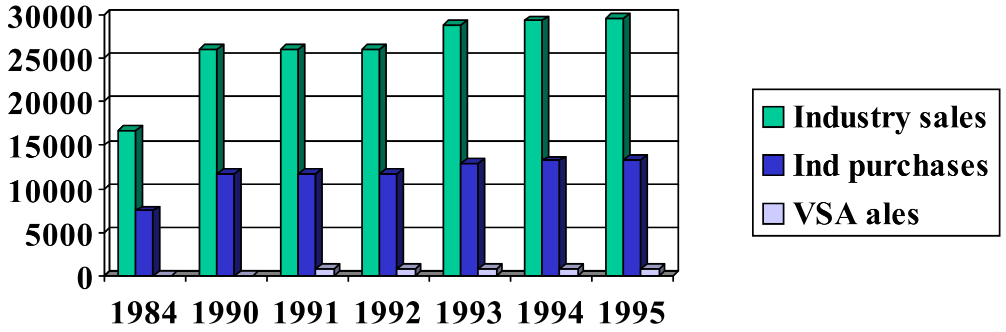
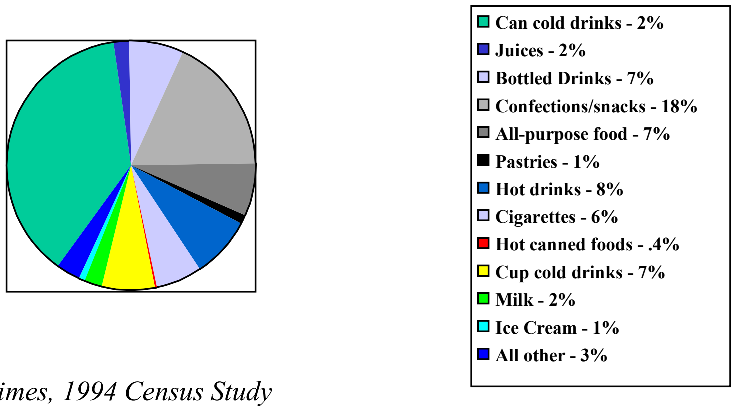


Exhibit D
Information on the Vending Industry



Product Market Share: 1995

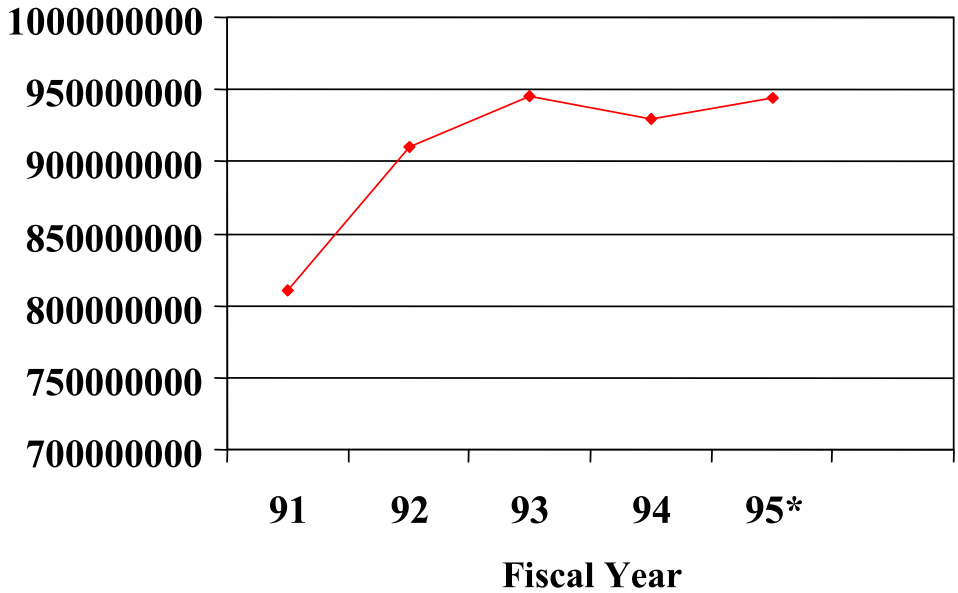


Source: Vending Times, 1994 Census Study

Exhibit E-1
VSA: Highlights

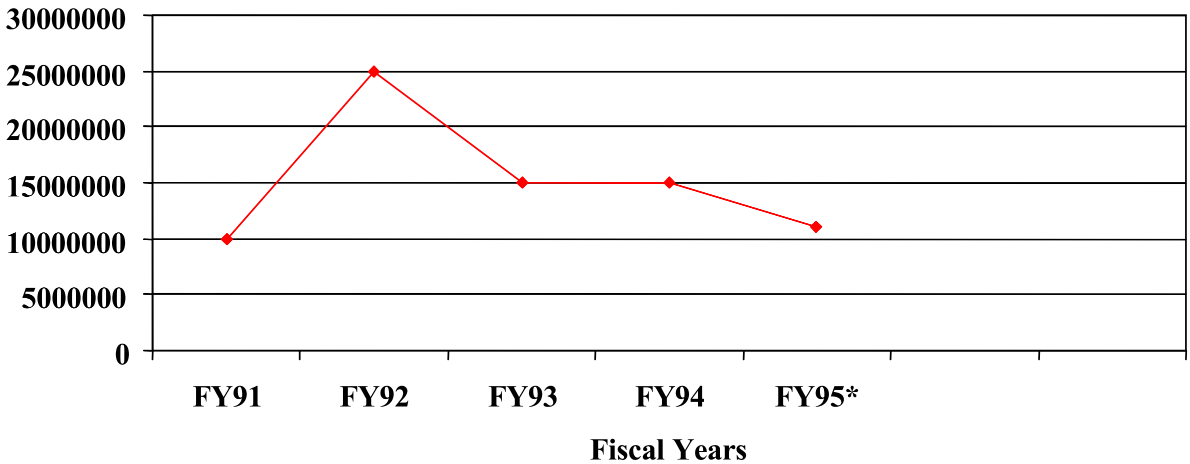
- Grew substantially from $200 to $900 million through acquisition of regional competitors over a period of eight years.
- The 20 distribution centers operated independently.
- Operating costs were increasing exponentially and profits were declining.
- Gross margins were shrinking as suppliers moved closer to the vend operators.
- The business had become capital intensive with low Return on Investment.
- Purchasing leverage because of volume was not realized by the distributors in the industry.

Exhibit E-2
VSA Historical Sales/Gross Sales



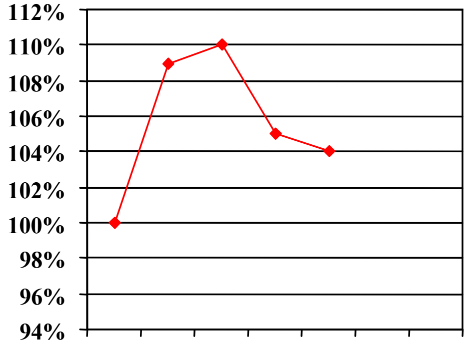
*future year projections

Exhibit E-3
VSA Pretax Profit



*projection for 1995

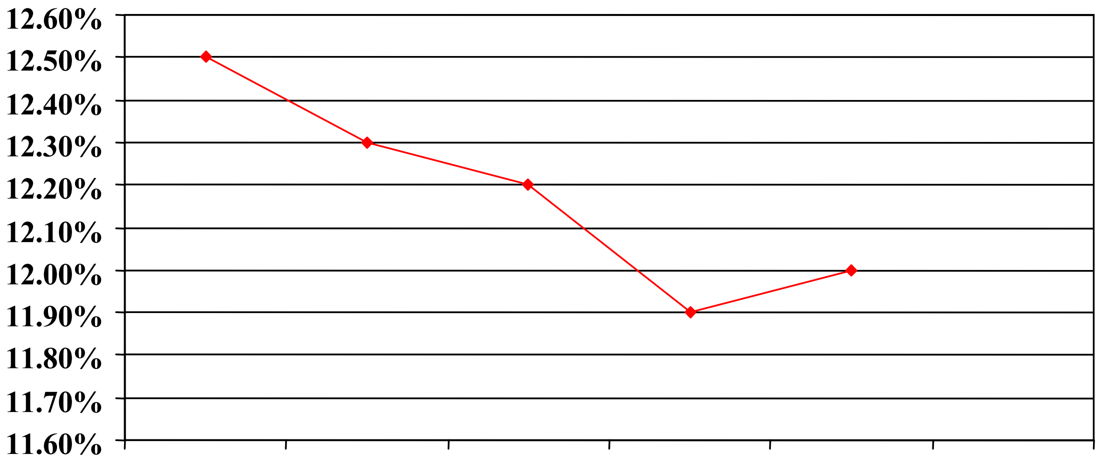
Exhibit E-4
Base Growth Percentage Net Sales



	FY91 Base Year	FY92	FY93	FY94	FY95 (projected)	Compounded
Growth %	100.0%	109.0%	110.0%	105.0%	104.0%	105.6%

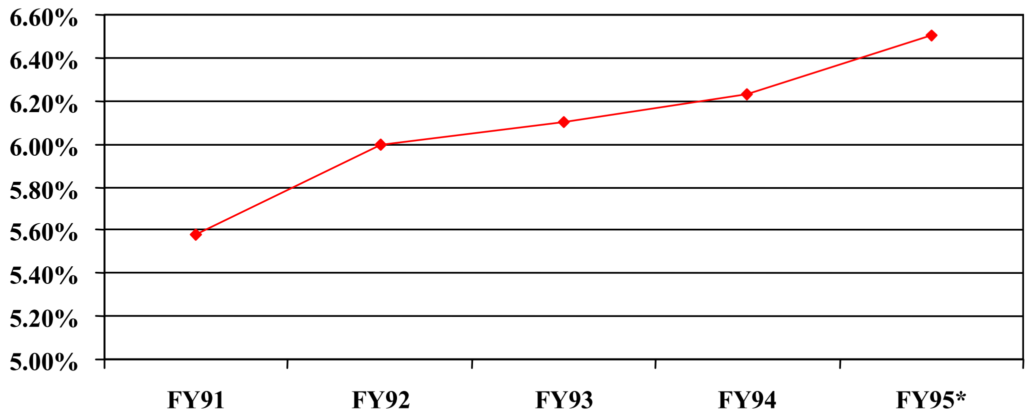
Adjusted for Acquisitions

Exhibit E-5
Gross Margin Percent



	FY91	FY92	FY93	FY94	FY95 (projected)
Margin %	12.5%	12.3%	12.2%	11.9%	12.0%

Exhibit E-6
Variable Cost

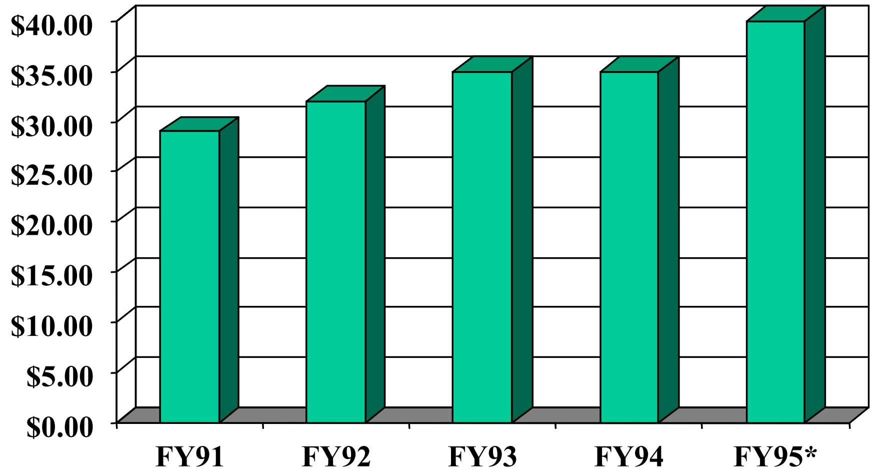


	FY91	FY92	FY93	FY94	FY95*
Variable Cost %	5.54%	6.00%	6.07%	6.24%	6.49%

*projections for 1995 as of August 1994

	FY95*
Warehouse	122%
Delivery	123%
Sales-Telesales	171%
Sales-Corp	176%
Adm-Div	104%
Adm-Corp	340%

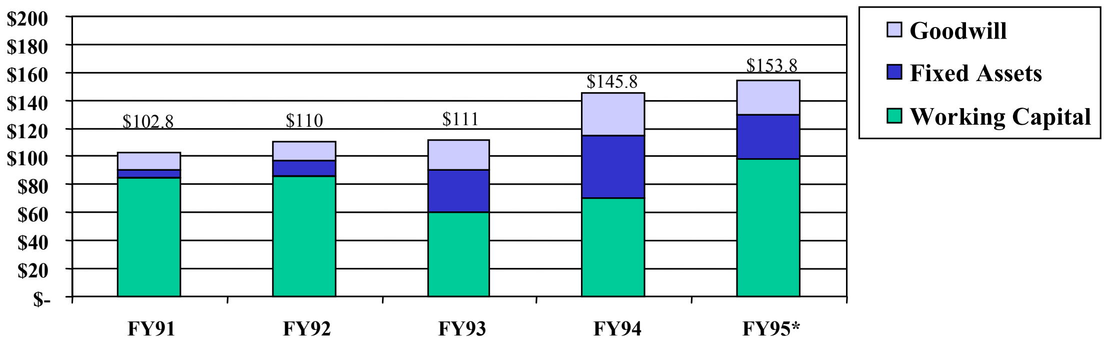
Exhibit E-7
Fixed Cost



Fixed Cost %	28.9%	32.2%	36.4%	36.2%	40.3%

	FY95*
Warehouse	136%
Delivery	145%
Sales-Telesales	0%
Sales-Corp	123%
Adm-Div	109%
Adm-Corp	203%

Exhibit E-8
Net Investment Base FY91 to FY95



FY91-95 Adj.: Acquisitions Buy In

Investment Growth %: FY 91-95

FY95 Adj.: Acquisitions

	FY95*	FY95 Adj.
Net Receivables	108%	101%
Inventory	106%	101%
Accounts Payable	92%	85%
Fixed Assests	382%	352%
Goodwill	113%	100%
Net Investment Asset	147%	138%

Return on Investment FY91-95

FY91	25.4%
FY92	29.1%
FY93	20.3%
FY94	11.6%
FY95	7.7%

Figure F-1
Renaissance Project Scope

Inventory Management

Inventory Planning
Procurement
Rebate Management
Supplier Negotiations
Supplier Performance

Sales & Marketing

Marketing
Telemarketing
Order Processing
Pricing/Book
Production
Credit/Returns
Outside Sales

Outbound Logistics

Receiving
Put Away
Routing
Picking
Loading
Delivery/Ship

Financial Management

Accounts Receivable
Accounts Payable
General Ledger
Budgeting

Exhibit F-2
Implementation Plan

The implementation of Renaissance is clearly a multi-year proposition given the size and scope, the relative magnitude of and the impact on the business and its organization, and the risk. Therefore, the implementation schedule of the new systems is segregated into discrete, logical phases based on VSA's business priorities. Each phase is further subdivided into design and installation projects to provide for management control. The following schedule identifies the major implementation phases of Renaissance. The objective of Phase I is to implement a complete replacement of VSA's core transaction system architectures (hardware, software, and communications). Subsequent Phases II through n provide for the continuous enhancement and improvement of the system via regular, scheduled release upgrades.

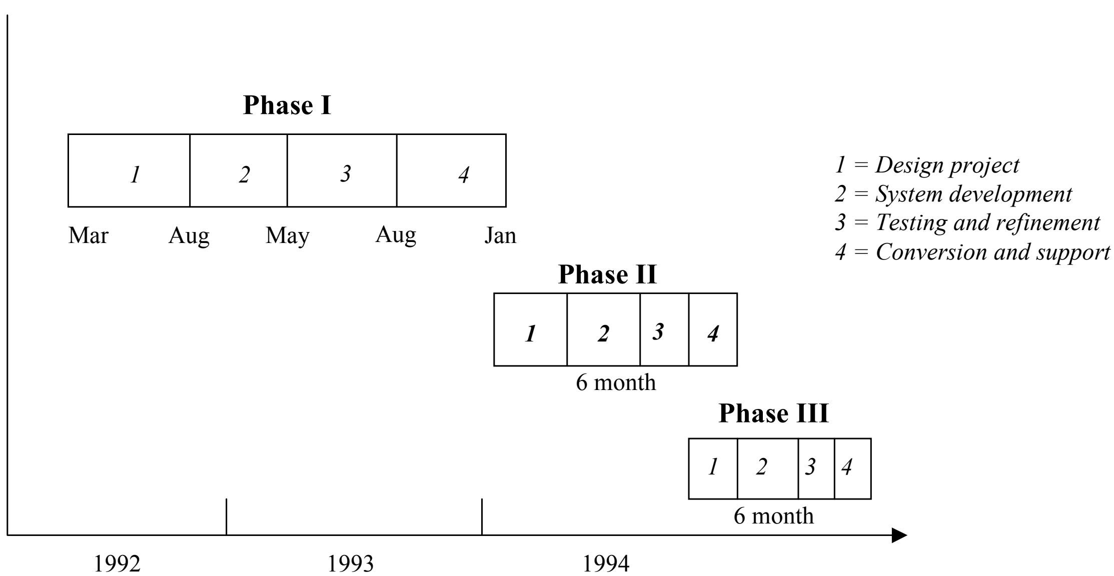


Exhibit G
Renaissance Benefits

Benefit	Annual	1995	1996	Fiscal Year 1997	1998	1999
Profit Improvement						
Work Force Reduction (a)						
Sales	$2,098					
Purchasing	$727					
Operations	$1,019					
Administration	$1,136					
Corporate	($297)					
Subtotal	$4,683	$3,512	$4,683	$4,683	$4,683	$4,683
Margin Improvement (b)						
Pricing Control	$3,500	$1,075	$2,940	$3,500	$3,500	$3,500
Rebate Management	$400	$400	$400	$400	$400	$400
Inventory Shrinkage	$720	$720	$720	$720	$720	$720
Subtotal	$4,620	$2,195	$4,060	$4,620	$4,620	$4,620
Total Benefits	$9,303	$5,707	$8,743	$9,303	$9,303	$9,303
Costs of Renaissance (c)						
Depreciation of Capital		$2,020	$2,625	$2,625	$2,625	$2,625
Ongoing Maintenance		$123	$135	$147	$159	$172
Telecommunications & Circuits		$381	$381	$381	$381	$381
Additional Personnel		$740	$841	$861	$881	$901
Total Incremental Costs of Renaissance		$3,264	$3,981	$4,014	$4,046	$4,079
Net Benefits		$2,443	$4,761	$5,289	$5,257	$5,224

Note(a): Full implementation on 4/25/94. First year projected at 75% of annualized benefits due to learning curve process.

Note(b): First and second year pricing benefits will be less due to bringing system to full utilization.

Note(c): Depreciation projected at 75% for first year due to partial year total utilization.

Exhibit H
Assessment of Pilots (August 1994)

Description	Denver	Kansas City
Telesales Manpower		
Prior to implementation	9 people	7 people
Post implementation	10 people	8 people
Warehouse Manpower		
August, 93	37 people	27 people
August, 94	42 people	24 people
Warehouse Overtime (as % of total payroll)		
June to August, 93	5.70%	8.69%
June to August, 94	10.15%	10.79%
% Fill Rate		
Prior to implementation (estimated)	2%	2%
Post implementation (last week)	5.91%	2.58%
Margin Improvement	None or Negative	None or Negative
Inventory Turns		
June to August, 93	12.41	12.92
June to August, 94	8.2	8.75
Sales Dollars		
% change in sales (June to August, 93 vs 94)	-4.30%	-6.30%

International Multifoods[3] – B

This case covers the period August 1994 – May 1996

DEVENDRA ARRIVES AT VSA

The Renaissance system was in the midst of its rollout when Devendra arrived as CEO of VSA. The results of the first two pilot tests had revealed a host of problems. There were two clear alternative courses of action with regard to Renaissance: (1) scratch the system altogether and start over or (2) modify the system and/or the implementation plan in order to enhance the chances of success. Option #1 was never seriously considered since the prevailing view was that it was implementation, not design or architecture, that was the problem. Further, writing off the $20 million involved in option #1 was unattractive to IMC management given the company's recent financial performance.

Devendra saw option #2 as the most viable alternative and he quickly set to work on leading a systems modification effort and developing a new rollout schedule. He started the process of replacing top managers with new people that he believed could lead the repair of Renaissance and the revitalization of VSA. He also did a careful analysis of the system and pilot test results and, in consultation with key managers and the Renaissance project team concluded that the key problems with the system were as follows:

- The system performance was inadequate in terms of customer wait time and order processing cycle.
- Critical components of the system could not be implemented because of system overload. Greater system capacity, in terms of storage and processing capacity, was needed.
- Data integrity was at 70% accuracy instead of the desired rate of 99.99% accuracy.
- The system was overly complex and in need of simplification.

Customers were experiencing unacceptable telephone wait time, order taking errors, stockouts, pricing errors, and service unreliability. These systems problems were particularly vexing to VSA's small independent customers who accounted for 65% of VSA's revenue. A survey of these customers revealed complaints about mis-shipments, stockouts, and loss of a telephone customer service representative who they knew on a first-name basis. To make matters worse, local brokers[4] were becoming alienated because of the centralization of purchasing inherent in Renaissance. There was also dissatisfaction with the new price book (product catalog), which was customer unfriendly, error-prone, and confusing.

Devendra informed IMC management that "significant incremental investment and effort was required to transform the system from being internally focused to being customer driven" and he set about leading the Renaissance team to make the necessary changes to restore successful implementation of the system.

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[3]This case was developed by Robert M. Price and Gerardine DeSanctis for instructional purposes only and is not presented as an evaluation of management practice. Revised July 21, 1999.

[4]A Note on the Role of "Brokers"—The vend operator, broker, and distributor were linked as follows. The broker represented various food manufacturers. In theory, brokers and vend operators acted independently and separately they would "choose" a distributor to deliver the product. In practice, brokers naturally wanted to get the most convenient and comprehensive distributor for their vend client. Thus, if the distributor and broker had good relations, the broker was as much a sales agent for the distributor as for the manufacturer being represented. The broker-distributor relations were developed and maintained at the local Distribution Center level. This meant that a Distribution Center General Manager had, in effect, three sales forces: the telesales operation by means of which most orders were entered, the brokers who could designate the center General Manager as the distributor, and a few direct sales people who called on large accounts.

The plan was to "re-engineer Renaissance" and the steps involved included those shown in Exhibit A. The fundamental architecture was not to be changed; rather, efforts were directed toward simplifying the system design, improving data integrity, and enhancing the system's basic computing and telecommunications power.

Meanwhile, the loss of sales and many pressures associated with Renaissance were resulting in growing morale problems as VSA. Many division general managers were leaving the company, project team members were frustrated, and some top managers, many of whom were newly hired by Devendra, were starting to question everything from the Renaissance system to the management of the company itself.

IMC management regarded the Renaissance system as absolutely critical to VSA success. No IMC managers were on the project team; however, following Devendra's hiring, IMC management kept in closer contact with the project and the developing morale problems at VSA. Bob Maddocks visited the VSA Denver office twice a month to review VSA status and offer advice and support to Devendra. IMC management was careful not to meddle in the details of the project or actively interfere with Devendra's operations. Some VSA managers interpreted IMC's distance as indicating indifference or lack of support. An undercurrent of tension was brewing, with IMC management feeling that the VSA people did not want corporate interference and VSA management feeling that IMC management didn't want to get involved with the project.

DIFFICULTIES AT IMC

IMC was also confronting other strategic and financial struggles during this time. The company had been through a series of strategic repositioning over the course of a decade and had experienced erratic financial success over those years. FY 1994 operating results were very poor. The company lacked a steady, profitable outlook and pressure to improve the firm's financial performance was mounting from both the board and the financial community. FY 1995 got underway on March 1, 1994. A critical issue was the search for a consistent, long-term strategy.

IMC's financial advisors suggested that the company separate into two businesses: the distribution business and the food business, which comprised North American Bakery, Canada Consumer Foods, and Venezuela Foods (MONACA). Food Service Distribution businesses enjoyed a higher price-to-earnings ratios. Further, separation of business types would allow each to focus on "core competencies," which would provide both internal value as well as external confidence. Although IMC management took this advice seriously, several forces prevented action toward a spin-off.

First, in 1994, IMC was in the process of acquiring the distribution business of the Laprino Company. This business was to be combined with Pueringer to form what would be known as Multifoods Specialty Division, leading to all the problems inherent in merging two operations. This merger, coupled with the cash consuming requirements of Renaissance at VSA, made it clear that the distribution business was not strong enough to stand alone. For FY 1994, Food Service Distribution had total operating earnings of only $7 million; for FY 1995, operating earnings would be $11.3 million.

Complicating IMC's situation further were the economic problems in Venezuela where the company's subsidiary, MONACA, was located. Although MONACA was a solid business, being the second largest food company in the country and in the top ten overall, the country's economic problems made MONACA's contribution in dollar terms unpredictable and somewhat volatile. In the fourth quarter of FY 1994 (ending February 28, 1994), because of the rate of inflation in Venezuela, it was necessary for IMC to adopt "highly inflationary accounting" for MONACA. This meant, among other things, that exchange losses due to inflation had to be taken directly to the operating statement rather than simply be accounted for as balance sheet transactions. The effect on MONACA's FY 1994 earnings was modest, since the change was limited to results for the fourth quarter. Even so, MONACA's operating earnings declined 4.7% from $25.5 million in FY 93 to $24.3 million in FY 1994. But the effect in FY 1995 was to be an 18% further decline to $19.9 million. All this was further compounded in June of 1994 by the fact that the Venezuelan government, in spite of raging inflation, froze the official exchange rate at 170 bolivars to the dollar. The government also made all exchange of bolivars into foreign currency subject to government approval. This would affect the payment of dividends by MONACA to its parent IMC.

Meanwhile, IMC's bakery business and Canadian subsidiary were growing only modestly. U.S. bakery margins were lowered by rising wheat costs that affected the cost of flour, a primary ingredient. Write-downs in the meats business and other unusual items brought a $17.2 million operating loss in the U.S. food service segment in FY 1994. Also in that fiscal year, Canadian

Foods sales decreased 3%. In total, including write-downs and unusual items of $19.4 million, these businesses had an operating loss of $9.9 million.

By the end of FY 1995, IMC had evolved into four major businesses: food service distribution in the U.S., bakery products in North America, consumer food products in Canada, and basic foods in Venezuela. Consolidated operating earnings per share, exclusive of unusual items such as sales of some businesses, declined from 1.86 EPS in FY 1994 to 1.55 EPS. The right long term strategy seemed to be elusive. Nevertheless hopes were high for improved results in FY 1996.

FY 1996: A DIFFICULT YEAR FOR IMC AND VSA

In February of 1995, Devendra made an impressive presentation to the IMC board. Reviewing the status of the industry, the company, the Renaissance project, and changes that were planned, he communicated a thorough understanding of the business and showed a careful analysis that gave the board confidence in the new CEO of VSA. But as FY 1996 got underway, an immediate improvement in Renaissance or VSA was not evident.

Inside VSA, however, the human resource problems were mounting. Management turnover in the Distribution Centers was increasing. There was a divisive atmosphere brewing as departments and functions feuded over the source of problems and responsibility for change. Many managers felt frustrated and over-worked. Despite Devendra's best attempts, problems with Renaissance and VSA as a whole continued. Morale problems grew and Devendra became frustrated and had difficulty managing and supporting his staff. Many of the new managers that Devendra had brought on board were getting frustrated. Some were on the verge of leaving the company.

VSA's pretax operating earnings for FY 1996 were $10 million, and sales declined 1%, due to the continuing loss of the small independent vending operator accounts.

There was little solace for IMC management as they looked at other parts of the company's business. In June 1995, because Venezuela's wild inflation continued unabated, rather than use the official exchange rate of 170 bolivars to the dollar, companies began using exchange rates based on the so called "Brady Bond" rate. IMC began this practice in August 1995 (the start of the third quarter of its fiscal year 1996). The "Brady Bond" rate was a proxy for what a free market exchange rate would have been. It was 228 in August 1995 and by February 28, 1996, had reached 470. In effect, in six months the rate at which bolivars were translated into dollars had gone from 170 to 470. In spite of this, MONACA's dollar denominated results for FY 96 only declined $800,000 (4%) to $19.1 million.

Producing these results in the midst of such extreme economic turmoil indicated a good basic business at MONACA and careful management within government constraints. But IMC was in no position to ride unperturbed through such uncertainty. MONACA was viewed more and more as a liability by people outside the company. On the other hand, it was not at all clear that the company could realize enough money from the sale of MONACA to replace its earnings contribution to IMC's overall results. Still, rumors persisted that the Company would have to dispose of MONACA and the "bottom fishers" gathered.

Of the two remaining IMC businesses, only the Canada consumer segment was a good performer. Its marketing was strong. "Robin Hood" was a powerful brand name in grain-based consumer foods and "Bick's" was well positioned in the condiments segment. North American Bakery had a good market position in bakery mixes, but with marginal competitive differentiation, good returns were difficult to achieve. The fledgling frozen bakery mix business did not have critical mass and was operating at a loss.

IMC's earnings for FY 1996 ending February 28, 1996, were a disappointing $1.33 per share. Before unusual gains, the company's earnings were $1.31 per share compared (on the same basis) to $1.55 in FY '95 and $1.86 in FY '94. The company appeared to be in a reverse gear. As the company entered FY '97, on March 1, 1996, the strategy issue had become, to use nuclear energy terminology, "supercritical." Before the first quarter ended, Tony Luiso resigned as chief executive officer.

MAY 1996: ENTER BOB PRICE

With the departure of Luiso and ongoing financial struggles, Bob Price, a member of the IMC Board of Directors, was drafted by the board to serve as interim CEO. Price had been CEO of the computer company, Control Data Corporation, during the 1980s, and he had a strong reputation for corporate leadership in the face of crisis. He had served on numerous corporate boards, lived in the Minneapolis area, and knew IMC quite well. Further, he was willing to take on the task on a temporary basis until a new CEO could be recruited.

He was taking over a company that now consisted of five profit centers: Bakery, Canadian Consumer Foods, MONACA in Venezuela, Multifoods Specialty Distribution (MSD), and VSA. It was not to be. IMC and VSA organization charts are shown in Exhibit B.

It was late in the evening on a Thursday night in May that Price agreed to take on the task at IMC. He would start his new post on Monday morning, just three days away, and he was thinking about the work ahead. Most importantly, he was pondering his priorities. To get started in his new post, he needed a plan, and he needed it quickly!

STUDY QUESTIONS

1. If you were Bob Price, what would you do during the first two weeks of your new job as CEO of IMC?

2. What are IMC's strategic alternatives at this point and which alternative should it pursue?

3. At this point, what should be done about the Renaissance system? How would you go about implementing your plan?

Exhibit A

REENGINEERING RENAISSANCE PRIOR TO ROLL OUT RESUMPTION

1. Additional fact finding and environment improvement
   - Feedback from customers through a survey
   - Feedback from employees survey
   - Establishment of routine communication link with employees
   - Customer communication regarding roll out plans and benefits
   - Commencement of the creation of a customer-driven culture

2. Alignment of the sales and the operations organization

3. Business simplification
   - SKU (Stock Keeping Unit) reduction
   - Customer segmentation
   - Pricing standardization
   - Inventory reduction

4. Data integrity establishment
   - Centralized Management
   - Elimination of Inactive Data

6. Adequate staffing and upgrade of the centralized functions
   - Accounts Receivable
   - Accounts Payable
   - Purchasing (Core Items)

7. Critical Skills Upgrade
   - Inventory Management
   - Logistics

8. Training of Employees

9. Transformation of the Telephone System ID Calling

10. Operation System Simplification to Achieve Speed

11. System architecture Improvement for Speed and Reliability

12. Rigid Inventory Control in Distribution Centers

13. Customer Service in Distribution Centers

14. Logistics Management in Regions

Exhibit B-1
IMC Organization Chart

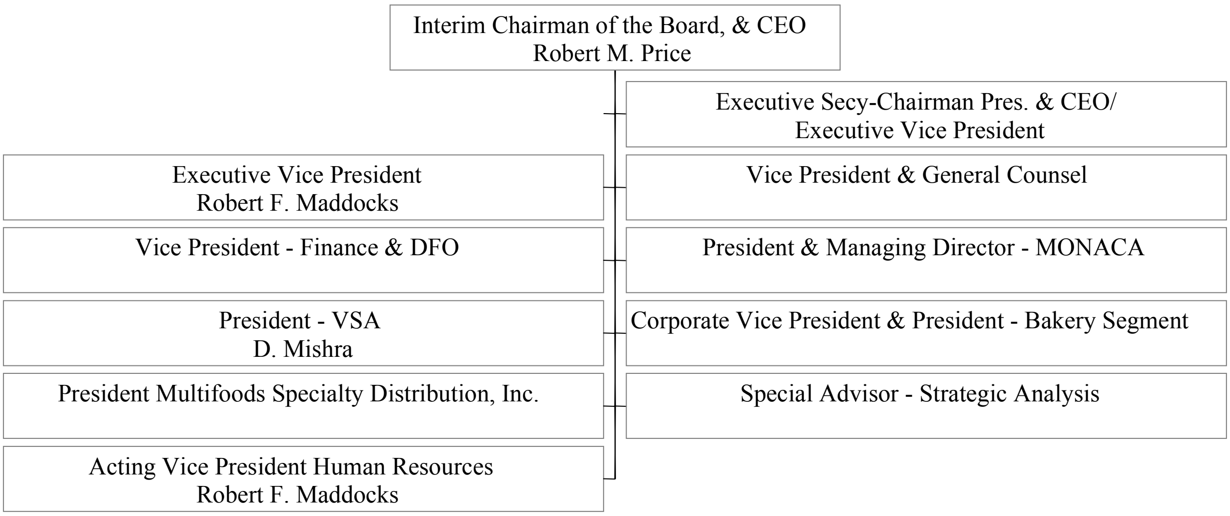

Exhibit B-2
VSA Organization Chart